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**DeNUCCI CITES STATE PENSION BOARD
FOR INADEQUATE GOVERNANCE**

State Auditor Joe DeNucci reported today that the state's pension investment board has failed to aggressively govern its activities, citing its lack of sufficient action to recover Enron stock losses. Other audit findings include a \$50,000 salary increase for the board's Executive Director that was never approved by the board, and its failure to give public notice of meetings as required by state law.

DeNucci's audit of the Pension Reserves Investment Management (PRIM) Board, a nine-member board chaired by the State Treasurer, concluded that PRIM has not pursued the recovery of Enron stock losses to the extent that it should. DeNucci's audit verified that the Enron losses, totaling \$22.7 million, were greater than the amount initially reported in December 2001. According to a review of the minutes of board meetings, there was no indication that any attempt had been made by the board to consider action against its contracted investment managers to recoup the losses resulting from the purchase of Enron stock. In fact, there was no reference to Enron at all in the minutes.

DeNucci's audit confirmed that questionable actions were taken by PRIM's investment managers despite ample evidence of serious financial difficulties at Enron. For example, one manager, Legg Mason, bought almost 1.7 million shares of Enron last October and November during a time of plummeting stock prices, resulting in a \$15.7 million loss.

Although PRIM officials indicated that they are participating in a class action lawsuit against Enron, DeNucci said the board should have procedures by which it can monitor market conditions to promptly detect potential high-risk corporate investments so that the board can take immediate action, when possible, to minimize investment losses. DeNucci said the board should also conduct a full review and accounting of all transactions and holdings in any such stocks in order to prepare for the state's participation in any other potential class action suits.

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DeNucci's report noted that PRIM has not fared well when compared to other Massachusetts public pension systems, ranking 86th of 107 systems for the latest year available, the end of 2001. Despite losses of 5.32 and 1.2 percent in the last two years, the pension fund's five-year performance of 9.41 percent, which includes two years under the prior administration, has outpaced the 8.25 percent rate of return assumption required by the state pension funding schedule.

In addition to the investment management issues, DeNucci's audit disclosed that the newly hired Executive Director of the PRIM Board received a \$50,000 salary increase – to \$200,000 – after three months on the job without the formal approval of the board. In addition, DeNucci reported, the board did not comply with the Open Meeting Law by failing to file public notices of advisory committee meetings.

DeNucci initiated the audit after the Attorney General ruled that the Public Retirement Administration Commission (PERAC) did not have the authority to review PRIM's procedures for selecting investment managers. The audit recommended passage of legislation giving PERAC the authority to review all aspects of PRIM's operations.